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IN THE

Supreme Court of the United States

QUANTA COMPUTER, INC.,
QUANTA COMPUTER USA, INC.,
Q-LITY COMPUTER, INC.,

Petitioners,

v.

LG ELECTRONICS, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF RESPONDENT

CARTER G. PHILLIPS*
VIRGINIA A. SEITZ
JEFFREY T. GREEN
JEFFREY P. KUSHAN
RACHEL H. TOWNSEND
QUIN M. SORENSON
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Respondent

December 3, 2007 * Counsel of Record

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

QUESTION PRESENTED

Whether a patent holder, by authorizing a manufacturing licensee to make and sell a component under a patent for that component, as a matter of law exhausts all of its patent rights under separate and independently issued patents for distinct systems and methods of which the component is only a part, particularly when purchasers of the component are expressly notified that they are not authorized to practice those independently issued patents.

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STATUTORY PROVISIONS INVOLVED

The relevant statutory provisions are reprinted in an appendix to this brief.

STATEMENT OF THE CASE

1. Respondent LG Electronics, In. ("LGE") owns patents that claim components, including microprocessors and chipsets, used in personal computers.[1] *E.g.*, A4701.078; A4701.072-.073; A4588.296-.302; A4559. LGE also owns separate and independent patents that claim systems and methods that combine such components with other devices, such as memory chips and bidirectional universal switches (commonly known as a "bus"), to produce an operational computing system. A4701.073-.075; JA199-67.[2] These patented systems and methods are practiced only when all of these components and devices are connected in the manner described by the patents, which enables the prescribed processes to occur – for example, allowing the system bus to send "read requests" and "write requests" to be "buffered" by the chipset. *E.g.*, JA263-66. These patented systems and methods produce substantial benefits for finished personal computers, increasing computing speed and operational efficiency. JA211; JA231; JA255; A6027.

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[1] A microprocessor interprets program instructions and processes data for a computer; a chipset is a collection of integrated circuits that instructs the computer how to organize and transmit data.

[2] A memory chip stores data that is accessed and addressed by the microprocessor and chipset. A bus coordinates and enables the effective transmission of data from the microprocessor and chipset to various input/output devices, such as a keyboard, game controller, barcode reader, monitor, hard disk, or printer.

LGE licensed Intel Corporation ("Intel") to manufacture and sell microprocessors and chipsets under the LGE component patents. JA149 (§ 1.13); JA152 (§ 1.23); JA154 (§ 3.1). It also granted Intel a license to practice the separate LGE systems and methods patents; however, importantly, LGE expressly prohibited Intel from conveying any license to its customers to practice the separate patents with non-Intel components or devices. JA147-49 (§§ 1.6, 1.13); JA164 (§ 3.8); JA174-75. Indeed, LGE required Intel to notify its customers that Intel did not and could not license them to combine the patented components with non-Intel parts to produce the separately patented systems and methods. JA176-77; JA198.

Petitioners are a related group of companies recognized as the world's leading producer of notebook computers, with more than ten billion dollars in annual sales. As Intel's customers, they purchased patented microprocessors and chipsets from Intel, and they received the notice required by LGE. Pet. 40a; A3960. Nevertheless, petitioners disregarded this notice and proceeded to do precisely what they were informed they had no authority to do: they combined and used Intel microprocessors and chipsets with non-Intel devices to produce the systems and methods claimed under LGE's patents. Petitioners do not dispute that they were not licensed or otherwise expressly authorized by LGE to practice these patents. Instead, they assert that LGE, by licensing Intel to manufacture and sell merely the components, necessarily and *as a matter of law* relinquished – or "exhausted" – LGE's rights to preclude purchasers of those components from

practicing the independent systems and methods patents.[3]

This case thus presents the novel question whether the sale of a patented article by a patent owner or its licensee exhausts not only patent rights in the article actually sold (here, the components), but also patent rights under independently granted patents on patentably distinct inventions which are practiced in part with that article (here, the systems and methods). Critically, the only patents in suit are those for the systems and methods; LGE does *not* claim that petitioners are infringing the patents for the individual components, since those components were sold to petitioners by LGE's authorized licensee. JA136-39. Therefore, this case does *not* present the question whether or under what circumstances the sale of an article exhausts the patent rights in the article actually sold.

No precedent of this Court supports a finding that LGE's rights in the patented systems and methods were exhausted by the sale of the separately patented components. Even if the sale of a patented article exhausts certain patent rights *in that article*, it does not exhaust patent rights in separate patented inventions merely because those inventions incorporate that article. Petitioners' claim that the components sold nonetheless "embody" the systems and methods that are separately patented must be rejected as a premature challenge to the validity of the systems and methods patents.

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[3] The several other computer systems manufacturers named as defendants in the underlying district court actions have since reached settlements with LGE, agreeing to pay royalties to LGE in return for a license to manufacture and sell LGE's patented systems and methods. *See* Pet. Br. ii; Pet. ii.

2. "The claims of the patent provide the concise formal definition of the invention." *Autogiro Co. of Am.* v. *United States*, 384 F.2d 391, 395 (Ct. Cl. 1967); see *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 373 (1996). The claims are numbered paragraphs which "particularly poin[t] out and distinctly clai[m] the subject matter which the applicant regards as his invention." *Markman*, 517 U.S. at 373 (quoting 35 U.S.C. § 112). The PTO's issuance of a patent for an invention means that the invention is "distinctly different and independent" from claims in other patents. *Miller* v. *Eagle Mfg. Co.*, 151 U.S. 186, 198 (1894); see *Brenner* v. *Manson*, 383 U.S. 519, 528-36 (1966).

3. LGE is part of a family of companies that invent, make, and sell computers, mobile phones, and numerous other products. This case originally involved five LGE patents, but only three are before this Court. These patents claim computer systems and methods for improved processing, retrieving, and/or transmitting of data within a personal computer system. The patented systems are produced by combining microprocessors, chipsets, and other devices (such as a bus, memory, and peripherals). *E.g.*, JA216 (claim 1); JA242-43 (claim 15); JA263 (claim 1). These other devices are essential to the patented systems; without them, the systems cannot function as intended. The patented methods are executed by coordinating those components and devices to enable certain processes – for example, allowing the system bus to send "read requests" and "write requests" to be "buffered" by the chipset (thereby improving the efficiency of data transfer). JA263-64 (claim 7). LGE also owns patents claiming individual components used in the systems and methods, including the chipset and

microprocessor, *e.g.*, A4701.072-.073 (U.S. Patent 5,123,108), but the patents claiming these components – which are independent of the patents claiming the systems and methods – are not at issue here, JA136-39.[4]

Personal computers that utilize the systems and methods claimed under the patents are more valuable and offer significant competitive advantages in the personal computer market. In 2002, the sales price of Intel microprocessors used in making personal computing systems was approximately $268.00 to $288.00, and the sales price of Intel chipsets was approximately $34.50 to $36.50 per unit. Bizcom Dckt 202 (9); Bizcom Dckt 204 (Morris Decl. ¶¶ 19-24, Exs. 24-29). Personal computing systems that combine these microprocessors and chipsets with other devices under LGE's patented systems and

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[4] The systems and methods patents in suit are U.S. Patent Nos. 5,077,733, 4,939,641, and 5,379,379. The '733 patent claims at issue (claims 15-19) are method claims. All involve methods for controlling a peripheral component's access to a bus shared by multiple devices, to prevent one device from hogging use of the bus by limiting each device's time of access. JA242-43. The '641 patent claims at issue (claims 1, 5-9, 14) are all system claims for ensuring that outdated data from a computer's main memory are not used by a component requesting data. JA216-17. The '379 patent claims at issue (claims 1, 7, 22-23) include system and method claims. These claims involve sequencing the processing of data to prevent access to outdated data in the computer's memory. JA263-67. The claims in the component patents are not in suit: for instance, LGE did not pursue an action for infringement against petitioners under U.S. Patent No. 5,123,108, covering microprocessors, because LGE had expressly authorized Intel to sell the microprocessors to its customers. *See* Dckt 202 (7), *LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, No. 4:01-cv-01375 (N.D. Cal.) ("Bizcom Dckt"); *see also infra* note 6 (acknowledging exhaustion).

methods are ultimately sold for $2299.00. Bizcom Dckt 202 (9), 204.

Intel approached LGE in 1999 in order to obtain a license to LGE's valuable portfolio of patents related to Intel's business. In September 2000, LGE and Intel negotiated a mutual licensing arrangement regarding their respective patented technologies. JA145; JA154-55; JA176. The arrangement included hundreds of United States and foreign patents, covering diverse areas of computer hardware, printers, scanners, and video technologies. Bizcom Dckt 135 (3-4); Bizcom Dckt 202 (5). The companies simultaneously entered into two agreements – a Patent Cross License Agreement and a Master Agreement – to settle all potential infringement claims against each other. JA145; JA 154-55 (§§ 3.1-3.2); JA163-64 (§§ 3.7-3.8); JA174-77.

Under these agreements, LGE and Intel granted each other non-exclusive worldwide cross licenses. As relevant here, Intel was licensed to manufacture, use, and sell microprocessors and chipsets that embodied LGE's component patents, and also to manufacture, use, and sell computer systems that embodied LGE's systems and methods patents.[5] Pet. 26a, 29a. Intel

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[5] The Master Agreement provides:

> WHEREAS Intel desires to acquire a license and a release with respect to only Intel products made for or by Intel and not for the products that computer system manufacturers make by combining Intel processors and chipsets with non-Intel components and materials;
>
> * * * *
>
> WHEREAS LGE is willing to grant a license and a release under the Patent License . . . only for Intel branded products . . . .

JA174-75.

The Patent Cross Licensing Agreement provides:

exercised its right to manufacture and sell the patented components, but it did not make, use, or sell the patented computing systems and methods. See, *e.g.*, Dckt 144 (3:9-13), *LG Elecs., Inc.* v. *Q-Lity Computer, Inc.*, No. 4:01-cv-02187 (N.D. Cal.) ("Q-Lity Dckt").

The agreements make clear that Intel was not authorized to license its customers to practice LGE's patented systems and methods with non-Intel parts. The Patent Cross License Agreement states: "[N]othing in the licenses granted hereunder or otherwise contained in this Agreement shall expressly or by implication, estoppel or otherwise give either party any right to license the other party's Patents to others." JA164 (§ 3.8). The Master Agreement reiterates: "LGE's grant of a license to Intel . . . shall not create any express or implied license under LGE's patents to computer system

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> 3.1 *LGE License to Intel.* Subject to the terms and conditions of this Agreement, LGE hereby grants to Intel a non-exclusive, non-transferable, fully paid-up, worldwide license, without the right to grant sublicenses, under LGE's Patents . . . .
>
> * * * *
>
> 3.7 *Waiver of Indirect Infringement Liability.*
>
> * * * *
>
> (b) Each party agrees that during the term of this agreement, it will not assert a claim of Indirect Infringement against the other party ("Licensed Party") where such a claim would be based in any part or in any way upon (a) any activity for which the Licensed Party is licensed under this Agreement, or (b) the Licensed Party providing instruction regarding or sample designs related to its Licensed Products. The parties agree that the foregoing sentence does not and shall not in any way limit their respective rights to assert direct or indirect claims of infringement against third parties.

JA153; JA163-64.

makers that combine Intel [components] with other non-Intel components to manufacture [the patented systems]."[6] JA176 (2). Intel customers that wished

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[6] The Master Agreement provides:

> WHEREAS LGE and Intel do not intend this Agreement or the Patent License (as defined below) to give rise to implied license rights in computer system manufacturers under LGE's patents in the instance where the computer system manufacturers combine Intel processors and/or chip sets with non-Intel components to produce mother boards, computer subsystems, and computer systems, such as desktop, notebook, and server computers;
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> * * * *
>
> 2. LGE and Intel intend and acknowledge that LGE's grant of a license to Intel for Integrated Circuits as defined in the Patent License shall not create any express or implied license under LGE's patents to computer system makers that combine Intel Integrated Circuits with other non-Intel components to manufacture motherboards, computer subsystems, and desktop, notebook and server computers.

JA175-76.

The Patent Cross License Agreement provides:

> 3.8 *No Implied Licenses or Other Rights.* No other rights are granted hereunder, by implication, estoppel, statute or otherwise, except as expressly provided herein. Specifically . . . nothing in the licenses granted hereunder or otherwise contained in this Agreement shall expressly or by implication, estoppel or otherwise give either party any right to license the other party's Patents to others, and (b) no waiver, license or immunity is granted by either party hereto directly or by implication, estoppel or otherwise to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired (directly or indirectly) from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination . . . . Notwithstanding anything to the contrary contained in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products.

JA164.

to produce the patented systems and methods by combining Intel components with non-Intel parts would have to negotiate separately with LGE to obtain that authority.

To avoid misunderstanding, the Master Agreement also spelled out the written notice that Intel was required to provide its customers:

> It has recently come to Intel's attention that LG Electronics (LGE) has contacted you and claimed that certain of your products infringe certain of LGE's patents. I am writing to notify you that Intel recently obtained a broad patent license from LGE. This patent license ensures that any Intel product that you purchase is licensed by LGE and thus does not infringe any patent held by LGE or any of LGE's subsidiaries.
>
> This patent license is consistent with Intel's policy of standing behind its products. Please note however that while the patent license that LGE granted to Intel covers Intel's products, *it does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product.*

JA198 (emphasis supplied); see JA177 (4).

Petitioners purchased microprocessors and chipsets from Intel. It is undisputed that petitioners received the required notice informing them that they had no license to practice the systems and methods patents with non-Intel parts, Pet. 4, but nonetheless did so. Those new machines manufactured by petitioners contain all of the elements required by the LGE systems and methods patents. When sued for the infringement, petitioners claimed that the sale of the Intel microprocessors and chipsets somehow exhausted LGE's patents *not* in the components but

in the separate and independently patented systems and methods.[7] Q-Lity Dckt 144 (10-11).

4. The district court held that LGE's rights in the patents in suit had been "exhausted" because petitioners had purchased components used to make the patented combinations from Intel, LGE's non-exclusive licensee. *E.g.*, Pet. 47a-48a. Notably, the court recognized that the patented components were separate from the patented systems and methods. *Id.* at 29a-30a, 40a, 45a n.7. And it did not find or suggest that the components embrace "essential features" of the patented systems and methods. Instead, based on the finding that the "sole purpose" of the components was for use in the patented systems, the district court concluded that the sale of the components exhausted LGE's rights in the systems claims of the patents in suit. *Id.* at 39a-43a, 48a.

Notwithstanding this finding with respect to LGE's rights in the patented *systems*, the court held that LGE's rights in the patented *methods* had not been exhausted. Pet. 52a-53a. Method claims, the court stated, are not subject to the exhaustion doctrine, and the sale of components to petitioners had no effect on LGE's rights to enforce the method claims. *Id.* It further ruled that petitioners had no implied license to practice any of the method claims of the patents in suit "because Intel expressly disclaimed the existence

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[7] LGE has never suggested that Intel is liable for *direct* infringement of the systems and methods patents, since Intel does not practice those patents. LGE's licensing arrangement with Intel eliminated Intel's potential liability for *contributing to* infringement of those patents by its customers, including petitioners, which used the components sold by Intel to practice LGE's patents in suit without license from LGE. *See supra* note 5 (waiving "indirect infringement liability").

of such a license." *Id.* at 53a, 61a. In subsequent decisions, the district court held that the method claims in LGE's patents had not been infringed, and entered final judgment against LGE on its infringement claims, dismissing all counterclaims as moot.[8] *Id.* at 61a-65a, 69a-70a, 80a.

5. On appeal, the Federal Circuit scrutinized petitioners' defense to infringement under two distinct legal theories. First, the court considered whether the conduct of LGE and its licensee Intel in their dealings with petitioners had given rise to an implied license for petitioners to practice the patented systems and methods. Pet. 3a-4a. Second, the court of appeals determined whether LGE's patent rights in the systems and methods patents had been exhausted by Intel's sale of the patented microprocessors and chipsets. *Id.* at 4a-6a.

As to the possibility of an implied license, the Federal Circuit affirmed the trial court's determination that LGE and Intel had not by their conduct conveyed a license to petitioners authorizing the practice of LGE's systems and methods patents. Pet. 4a. As the court explained, "Intel expressly informed [petitioners] that Intel's license agreement with LGE did not extend to any of defendant's products made by combining an Intel product with non-Intel products. In light of this express disclaimer, no license can be implied." *Id.*

The Federal Circuit reversed the district court's determination that rights under the systems patents in suit had been exhausted. The court first noted that "[t]he patents asserted by LGE do not cover the

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[8] The district court's judgment of non-infringement was overturned in many respects by the Federal Circuit. Pet. 6a-25a. None of these rulings is at issue.

products licensed to or sold by Intel; they cover those products when combined with additional components." Pet. 4a; see *id.* at 5a ("this sale involved a component of the asserted patented invention, not the entire patented system").

The court stated that the patent exhaustion doctrine is "triggered by an unconditional sale [of the patented device]." Pet. 4a-5a. "The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the [patented device]." *Id.* at 5a. The court also reasoned that, in an expressly conditional sale, "it is more reasonable to infer that the parties negotiated a price that reflects only the value of the [particular] rights conferred by the patentee." *Id.* (citation omitted).

The court then explained that "[t]he LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components" and that the parties' agreement further "required Intel to notify its customers of the limited scope of the license, which it did." Pet. 6a. Thus, "Intel's customers were expressly prohibited from infringing LGE's combination patents." *Id.* In this setting, the court concluded, LGE's rights in its systems patents were not exhausted.

Finally, the court affirmed the district court's decision that LGE's method claims were not exhausted, stating that, "even if the exhaustion doctrine were applicable to method claims, it would not apply here because there was no unconditional sale." Pet. 6a. In any event, the court added, "the sale of a device does not exhaust a patentee's rights in its method claims." *Id.*

Rehearing was denied, and the case was remanded for further discovery and trial.

SUMMARY OF ARGUMENT

1. A significant fact in this case is one that petitioners have studiously ignored: The components which petitioners purchased from Intel are independent and distinct products from the patented systems that petitioners now claim "authority" to practice. 35 U.S.C. §§ 154(a)(1), 271(a) (prohibiting parties from practicing patents "without authority"). The United States Patent and Trademark Office ("PTO") concluded as such by issuing independent patents for the components and for the systems, see *id.* §§ 101, 282, and both the district court and Federal Circuit recognized that the patented systems are distinct from the components actually sold by Intel. Petitioners have not challenged these conclusions or the validity of these patents on appeal or in the petition for certiorari, and they are precluded from doing so at this stage. See Sup. Ct. R. 14.1(a); see also *Cardinal Chem. Co.* v. *Morton Int'l, Inc.*, 508 U.S. 83, 96 (1993). They must therefore accept as fact that (i) the patents in suit represent independently patentable inventions relative to the components that were sold, and (ii) the sale of the patented components does not and cannot constitute a sale of the patented systems.

Nevertheless, petitioners argue that the sale of the patented components necessarily, *as a matter of law*, invested them with the absolute right to practice LGE's separately patented systems. This position represents a serious misinterpretation, and unwarranted expansion, of the patent exhaustion doctrine. The exhaustion doctrine has always been defined by this Court as stating that the

unconditional sale of a patented article exhausts the patent rights *in that article*. *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873). The doctrine does not and has never, in its nearly 200 year history, been held to state that the sale of a patented article exhausts a patent holder's rights in independently issued patents, beyond the one that claims the invention embodied by the article sold. Such a rule would improperly collapse the separate patents, which grant rights in independently patentable inventions, and amounts to nothing more than an untimely and indirect argument of patent invalidity.

Indeed, the principal case on which petitioners rely, *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), supports a much more limited rule regarding patent exhaustion. *Univis* held that the sale of a lens blank manufactured under a patent exhausted the patent holder's rights in a finished lens made by subjecting the blank to a finishing process under the *same patent*. *Id.* at 248-52. Unlike this case, in *Univis* the product sold (the lens blank) actually embodied the patent at issue. *Id.* There was no patentable distinction between the lens blank and the finished lens, and no additional components had to be combined with the blank to produce the patented invention. *Id.* *Univis* simply applied standard exhaustion analysis to conclude that the sale of a patented article exhausts patent rights *in that article*. Nothing in *Univis* stands for the sweeping rule advanced by petitioners, that the sale of an article can exhaust patent rights in independently patented systems that incorporate that article.

2. Nor is there any basis to say that petitioners gained authority to practice the patented systems under the doctrine of implied license. LGE licensed Intel to manufacture and sell certain components of

personal computer systems, but it expressly declined to authorize Intel to license Intel's customers to practice LGE's patented systems with non-Intel components. Petitioners do not dispute that they were notified of this restriction, and they concede that a patent holder may impose restrictions on the manner in which its licensees practice its patents. Nor do they challenge the holdings of *both* lower courts in this case that the sale of the components *did not* give rise to an implied license to practice the systems patents with non-Intel parts, because it is undisputed that Intel expressly informed petitioners that no such license was being conveyed. Petitioners received no license to practice the patented systems, and they can claim no authority under patent law to do so.

3. Moreover, even assuming (contrary to the record and the actions of the PTO) that the sale of the patented components could somehow have constituted a sale of the independently patented systems, thereby exhausting certain of LGE's rights in those patents, LGE still would be permitted to enforce against petitioners the restriction on practicing the patents with non-Intel parts. While the sale of an article may preclude a patent holder from enforcing conditions on "selling" or "using" that article – since the patent holder has arguably exhausted those rights through the sale – it does not prevent the patent holder from enforcing restrictions on the "making" of the article. See 35 U.S.C. §§ 154(a)(1), 271(a) ("Every patent shall . . . grant to the patentee . . . the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States . . . ."). Notwithstanding the sale of an article, patent holders always retain the right to preclude others from

"making" the patented innovation or otherwise practicing the patent without authorization. LGE is therefore entitled to enforce against petitioners, through a suit for patent infringement, the express restriction on making the patented systems with non-Intel parts.

4. Petitioners' contrary argument stretches a judge-made infringement defense beyond the breaking point. It is noteworthy that Congress did not include in the Patent Act express statutory sections providing generally for exhaustion of patent rights, as it did in the Copyright Act. Cf. 17 U.S.C. § 109(a), (c). The legal foundation of the doctrine of exhaustion of patent rights rests exclusively on judge-made law. That Congress has not acted to codify this principle generally in more than 150 years militates in favor of a more limited and conventional interpretation of the doctrine, and certainly does not support the broad expansion advanced by petitioners. In fact, when Congress has spoken on the subject of patent rights, it has often done so to reinforce – not to limit – the discretion of patent holders to enforce their patent rights despite the sale of an article to be used in practicing the patent. See 35 U.S.C. § 271(d)(2).

The rule of law proposed by petitioners furthers no legal or economic policy embodied in the Patent Act. In addition to trivializing patent rights in combination inventions – recognizing that nearly all patentable combinations are made from "old" components – it contravenes traditional notions of property as a bundle of rights that may be sold or licensed in part, in whole, or not at all. It will require holders of combination patents to extract the full economic value of their patent rights from the first purchaser of any component that is to be used in that

combination. This will discourage both innovation and rational risk and cost allocations among different users of technology. Nor is petitioners' rule necessary to guard against anticompetitive conduct: tying arrangements, price controls, and other prohibitions on the sale or use of a patented article would continue to be outside the patent protection and fully subject to antitrust law under LGE's approach. There is no reason under patent law or economic principles to deny to a patent holder such as LGE the right to place reasonable restrictions on the licensing or practice of its patented inventions.

ARGUMENT

I. THE SALE OF A COMPONENT DOES NOT EXHAUST A PATENT HOLDER'S RIGHTS IN PATENTED SYSTEMS OF WHICH THE COMPONENT IS A PART.

A. The Components Sold By Intel Do Not Embody The Patented Inventions At Issue.

1. Petitioners' arguments are based on a sleight of hand. Petitioners treat the Intel components as if they embody every feature of LGE's patented systems. This is plainly wrong. The components sold to petitioners by Intel are patented, but those patents are not the patents in suit. Rather, the patents in suit define and claim separate systems that petitioners have elected to practice. Specifically, LGE's systems patents are practiced only when components, including the Intel-manufactured microprocessors or chipsets, are combined with other devices – such as memory, system buses, and input/output devices – to create personal computer systems.

This fundamental distinction between the *components* used in the systems and the *systems* made in part with those components is conclusively demonstrated by the issuance of separate and independent patents on the components and the systems by the PTO. Each of these patents must be presumed valid, see 35 U.S.C. § 282; indeed, their validity cannot be challenged by petitioners at this stage of the proceedings, see Sup. Ct. R. 14.1(a); see also *Cardinal Chem.*, 508 U.S. at 96. Because only one patent may be issued per invention, 35 U.S.C. § 101; *Miller*, 151 U.S. at 197, the issuance of separate patents for the components and for the systems shows that the components and systems are independent and distinct inventions under patent law.

The basic fallacy in petitioners' contrary argument is that "it requires the ascribing to one element of patented combination[s] the status of the patented invention in itself." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 344-45 (1961). But, "if anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant." *Id.* Even if "an element is . . . an essential part[] of the combination, . . . this does not make it identical with the combination. It may be novel, patentable of itself, subject to its own special monopoly, or it may be free for everybody's use, but . . . it is not identical with the combination." *Leeds & Catlin Co.* v. *Victor Talking Mach. Co.*, 213 U.S. 301, 320 (1909). As such, a patent on a combination of components does not confer rights over the individual components themselves; conversely, a patent limited to an individual component cannot be equated to a patent on the

combination. *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 667-68 (1944) ("[T]he combination is the invention, and it is distinct from any of [the individual parts]."). The sale of the patented components to petitioners thus was not a sale of the patented systems.[9]

2. The Court has repeatedly held, in accord with this principle, that the unconditional sale of a patented article exhausts patent rights *only* in the article itself. See, *e.g.*, *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (citing *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Adams*, 84 U.S. at 456; *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872)). By placing a patented article into the stream of commerce, without condition, the patent holder signals that it relinquishes its right under patent law to exclude others from "using" or "selling" that particular article. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 515-16 (1917). Through the unconditional sale, the patent holder has severed its statutory right to claim exclusive dominion and control over that patented article, and purchasers of that article are not bound to respect any restrictions that the patent holder seeks to impose on the use or sale of that article because of the patent thereon.

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[9] The United States agrees, acknowledging that "[t]he sale here was not of an article covered by th[e] patents [in suit], but rather merely of a component of the patented systems and methods." Gov. Br. 31. Nevertheless, throughout the rest of its brief and in the question presented, the United States incorrectly frames the case as involving a restriction on the article sold. *Id.* at I ("[w]hether a patentee, having authorized the sale of *the particular article* at issue, can nonetheless invoke patent law to remedy a violation of a purported restriction on the purchaser's right to use *the article* for its only reasonable use") (emphasis supplied).

Boston Store of Chi. v. *Am. Graphophone Co.*, 246 U.S. 8, 23, 25-26 (1918). The article has "passed beyond the scope of the patentee's rights." *Gen. Elec.*, 272 U.S. at 489.

But exhaustion is an inherently limited doctrine. The exhaustion of patent rights that results from an unconditional sale of an article does not extend beyond the particular article itself. For example, no case from this Court has ever held that a person who purchases an article through an unconditional sale thereby gains the right under the patent to "make" or to "import" additional copies of that article. Cf. *Cotton-Tie Co.* v. *Simmons*, 106 U.S. 89, 93-94 (1882) (purchasers of patented cotton-bale ties were not permitted to use discarded pieces of purchased ties to construct new ties). This stems in part from the statutory character of the patent grant, which confers discrete and independent exclusive rights to make, use, offer for sale, sell, or import the patented invention. 35 U.S.C. § 154(a)(1). A contrary result would destroy the very point of granting exclusive rights to "make" the patented article – if the first sale of one unit of the patented invention operated to authorize subsequent manufacture of copies of the patented invention, there would be no patent "exclusivity" or incentive delivered from the patent grant.

Because unconditional conveyance of an article manufactured under one patent does not exhaust the patent holder's right to prevent the "making" of additional articles by the purchaser under that patent, it certainly follows that conveyance does not exhaust the patent holder's right to prevent the "making" of a *different* patented item, such as a machine that incorporates the article as one of its components. The unconditional sale of a patented

article may signal that the holder relinquishes certain patent rights in the article itself, but it does not relinquish any rights arising out of other, independently granted patents claiming different inventions, even if those patents employ the article. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964); *Cotton-Tie*, 106 U.S. at 93-94. Collapsing separate patents in this way would usurp the PTO's authority and expertise in deciding when and if a combination invention represents a patentable advance over one or more components used to make that invention. It would also violate the legislative presumption that each invention for which a patent is issued has real world value independent of other inventions that may also be patented. See 35 U.S.C. § 282; *Brenner*, 383 U.S. at 528-36 (each invention issued as a patent must have utility). There is absolutely no statutory basis or rationale in law to deem a patent holder's rights in one patent exhausted by the sale of a separately patented article.

This conclusion does not change, as petitioners assert, merely because the patented article's sole use is in a separate patented system.[10] Pet. Br. 33-34, 39-

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[10] Contrary to petitioners' assertions, *see* Pet. Br. 39, the components have more than one economically viable use. Petitioner Quanta, for example, is an overseas firm, and its overseas sales of personal computers practicing LGE's United States patents in suit do not violate United States law. *See* A608-09; A627-28; A755-76; A800-01; A3743; A4069-70. Moreover, petitioners have conceded that Intel could disable the features of the components to prevent infringement of LGE's systems patents when those components were combined with other non-Intel components. *See* A3578.120 (Chen Decl. ¶ 15). In other words, petitioners could have purchased components from Intel that, when used in computer systems with non-Intel parts, would not have infringed LGE's systems patents. These

40. The exhaustion doctrine does not consider whether the article may be utilized in other patented inventions or whether those uses are profitable ones. Nor does it consider, as petitioners suggest, whether the purchased article is the "heart" of a separate patented combination or represents the true "advance in the art" of that combination. *Mercoid*, 320 U.S. at 667; cf. *Special Equip. Co.* v. *Coe*, 324 U.S. 370, 375-76 (1945) (separate patents could be issued for combination and sub-combination, even though the only economically viable use of sub-combination is as part of combination). Rather, its application is premised on the limited principle that a patent gives specific rights to a particular defined invention and the unconditional sale of an article that meets the limitations of that defined invention relinquishes certain of those patent rights. *Motion Picture*, 243 U.S. at 515-16.

The effect of a sale of an article on *separate* patents (those not embodied by the article) is addressed not by the exhaustion doctrine, but by the conceptually distinct principle of implied license. That principle presumes that, when the holder of a patent on a system or process unconditionally conveys an article (patented or unpatented) that can be used only in practicing that system or process, the holder has granted the purchaser an implied license to practice that patent. *B.B. Chem. Co.* v. *Ellis*, 314 U.S. 495, 497 (1942) (citing *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Carbice Corp. of Am.* v. *Am. Patents*

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facts eliminate any possible basis for petitioners to assert, even under their own theory, that the sale of these components exhausted LGE's rights in the patented systems (or gave rise to an implied license). *See, e.g.*, *Univis*, 316 U.S. at 252 (implied license will generally be recognized only when the article sold has no non-infringing uses).

Dev. Corp., 283 U.S. 27 (1931)). Although the concept of implied license serves as an effective adjunct to the exhaustion doctrine, protecting parties' reasonable expectations that the purchase of an article generally authorizes the purchaser to practice the system or process in which the article is intended to be used, the two doctrines rest on wholly distinct foundations. The question of whether an implied license under distinct patents has been granted incidental to the sale of an article focuses on the conduct and intent of the parties, to determine whether they could reasonably anticipate that the purchaser would receive a license to practice the separate patented system or process. See *id.* In contrast, exhaustion focuses on the fact of conveyance itself, to determine whether patent rights *in the article sold* were necessarily exhausted as a consequence of the sale. *Motion Picture*, 243 U.S. at 515-16. No agreement or meeting of the minds is presumed in the exhaustion context; rather, the loss of rights occurs as a result of the patent holder's decision to sell the article. *Id.*

These doctrines address separate situations and protect different interests. It therefore makes no sense to merge them, as do petitioners (and the United States), by asserting that the sale of an article exhausts the patent holder's rights in that article (standard exhaustion analysis) *and* the patent holder's rights in any independently patented system in which the article will be used (exhaustion analysis merged with implied license analysis). Pet. Br. 33-34; Gov. Br. 8. In fact, this approach nullifies the very concept of implied license, since under this view the sale of any article to be used in a patented system absolutely exhausts all of the seller's independent

patent rights in that system, negating any need for a license.[11]

Extending the exhaustion doctrine to apply to patents beyond those that claim the article itself also risks a host of absurd and conflicting results. The most obvious of these would occur when the patent for the article and the patent for the system using that article are owned by different entities.[12] Under petitioners' expanded exhaustion doctrine, conveyance of an article exhausts any patent rights associated with that article itself *and* any patent rights associated with a system in which article is used, if that system represents the only economically viable use of the article. Pet. Br. 33-34. When the article patent and the system patent are owned by different entities, petitioners' rule would mean that the holder of the system patent could see its patent rights extinguished without its consent and without any action on its part. The mere fact that the owner of the article patent has sold the product is sufficient, under petitioners' theory, to eliminate the right of the system patent holder to assert its independently granted patent rights to restrict the purchaser from practicing its patent. This result is flatly contrary to the fundamental principle of patent law: that a patent holder is entitled to exclude others from

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[11] It is ironic that petitioners repeatedly accuse LGE of collapsing these doctrines, Pet. Br. 25-26, when, in fact, it is petitioners that confuse these distinct principles.

[12] This situation could arise, for instance, when a component patent was issued years before the system patent, when the component had a different (now, economically defunct) utility. Or, a single entity that holds both the component patent and the system patent could decide for business reasons to assign its rights under the component patent while retaining its rights under the system patent.

practicing the patented invention. 35 U.S.C. §§ 154(a)(1), 261; *Grant* v. *Raymond*, 31 U.S. (6 Pet.) 218, 241-42 (1832).

This example also demonstrates the fundamental difference, which petitioners confuse, between the concepts of exhaustion and contributory infringement. Pet. Br. 34; see Gov. Br. 31. An entity that transfers one of many components designed to function in a patented system may be deemed liable for contributory infringement because the entity has actively assisted the purchaser in practicing the system patent without authorization from the patent holder. *Metro-Goldwyn-Mayer Studios Inc.* v. *Grokster, Ltd.*, 545 U.S. 913, 930-33 (2005) (citing 35 U.S.C. § 271(c)). Other parties can likewise be held liable as contributory infringers if they sell other, distinct components of the same system. *Id.* Under petitioners' theory, however, the first lawful conveyance of any component exhausts the patent holder's rights in the patented system. The purchaser of any of the components can therefore practice the patented system with impunity, without infringing the patent holder's rights. And, since there is no direct infringement in this situation, there can be no contributory infringement. *Aro*, 377 U.S. at 483 ("[I]t is settled that if there is no *direct* infringement of a patent there can be no *contributory* infringement . . . ."). The broad exhaustion doctrine advanced by petitioners would largely nullify the concept of contributory infringement.

The exhaustion doctrine should be applied, as it has always been, to exhaust only those patent rights in the article itself. Conveyance of a patented article cannot exhaust rights in patents other than the rights that inhere in the article itself.

2. In arguing to the contrary, petitioners misread several of this Court's prior decisions, most notably *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942). In *Univis*, the Court held that a patent holder that authorized its affiliate to manufacture and sell patented lens blanks, which were then ground and polished under the *same patent* by separately licensed retailers, could not enforce express restrictions under licensing agreements with the retailers on the prices at which the finished lenses were sold. *Id.* at 243-45, 248-54.

Central to the Court's holding was the conclusion that the lens blanks and the finished lenses were the same article for purposes of patent law and that the sale of the lens blanks had the same effect as a sale of the finished lenses for purposes of exhaustion. The Court found that the lens blanks "embodie[d] essential features of the patented device" and were themselves "within the protection of [the] patent." *Id.* at 249-51. The blanks constituted the entire physical structure of the patented article and were neither distinctly different nor independent from the finished lenses. See *id.* (the lens blanks "embodie[d]" the patented invention).

The modifications made by the retailers to the shape of the blanks, although necessary to practice the patent "fully" and invest the blanks with the "utility" of the patented invention (*i.e.*, as finished lenses), did not alter the basic nature of the manufactured articles and were not capable of being awarded independent patent rights. See *id.* at 248-49. Because the lens blanks embodied the patented invention itself, their authorized sale exhausted patent rights in that patented invention, regardless of the subsequent modifications. The Court therefore held that the patent holder had no right to control the

prices at which either the unfinished blanks *or* the finished lenses could be resold. *Id.* at 251 ("[By selling the article, the patent holder] has thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold *either in its unfinished or finished form.*") (emphasis supplied).

The converse situation is presented in this case. The components sold by Intel do not constitute the entire physical structure of the patented systems. Only by combining those components with other, separate devices are the patented systems practiced. In other words, the systems that are the subject of the patents in suit necessarily and legally require patentably distinct elements and steps to be performed with the components to yield these independently patented inventions. As such, the components cannot reasonably be said to "embod[y] essential features" of the patented systems, as both lower courts acknowledged, which should be dispositive. See *Berenyi* v. *Dist. Dir.*, 385 U.S. 630, 635-36 (1967) (under "two-court rule," the Court generally will not "undertake to review concurrent findings of fact by two courts below") (quotations omitted).

Recognizing the gaping hole in their reliance on *Univis*, petitioners ask the Court to ignore the problem. They assert that, by failing to respond to a sentence in the petition for certiorari asserting that "the chips sold by Intel clearly embraced the 'essential features' of the asserted [systems] patents," LGE has somehow conceded this point. Pet. Br. 6. This is plainly wrong. LGE's brief in opposition expressly referenced the Federal Circuit's contrary finding that "[the] sale involved a component of the asserted patented invention, not the entire patented

system," Pet. 5a; see Resp. Br. 9, and the bulk of the brief was devoted to defending the Federal Circuit's holding, *e.g.*, *id.* at 3, 4, 12, 17, 21.

That analysis was correct. LGE's patented systems are not practiced by modifying the component; rather, those patents are practiced only when the component is combined in certain ways with other distinct articles not contained within the component sold. The *Univis* Court was careful to stress that only a single patent was at issue – the one that described the manufacturing and finishing of the lens blanks – and that "[w]e therefore put to one side questions which might arise if the finisher of a particular lens blank utilized the invention of some patent other than the patent which was practiced in part by the manufacture of the blank." 316 U.S. at 248. That of course *is* this case, and as the issue cannot be put aside, it should be laid to rest. Exhaustion from the sale of one patented component does not extend to the practice of a different patented system.

The Court in *Univis* bolstered its exhaustion analysis with a discussion of implied license. It found that the lens blanks had been conveyed with the clear intention that the retailers would finish the blanks, giving rise to "a license [for the retailers] to practice the final stage of the patent procedure." *Id.* at 249. It further noted that "[n]o one would doubt that if the patentee's licensee had sold the blanks to a . . . finishing retailer, without more, the purchaser would not infringe by grinding and selling them." *Id.* at 251. That the retailers would have been allowed under the implied license to practice the patent freely, without the price restriction, made the refusal to enforce the price controls in the express licensing agreements all the more reasonable.

But, although the Court used implied license to support its conclusion, it is clear that the implied license analysis was distinct from the exhaustion analysis. The Court on several occasions explicitly distinguished between the two concepts. *E.g.*, *id.* at 249 ("Sale of a lens blank by the patentee or by his licensee is thus in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, *and a license to practice the final stage of the patent procedure.*") (emphasis supplied). And, importantly, the Court distinguished *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), a case upholding the right of patent holders to enforce price controls against manufacturing licensees. *Id.* at 488-89. The holding of *General Electric* supported the enforceability of the price controls imposed on the retailers in *Univis*, because the retailers were practicing the patent under license from the patent holder (and, indeed, the patent holder so argued in its brief, see Br. for Appellees 36, *Univis*, 316 U.S. 241 (filed Apr. 7, 1942) (No. 855)). However, the Court found *General Electric* to be inapplicable because, by the time the retailers in *Univis* practiced the lens patent, the patent holder had already vended an article that "embodie[d] essential features of the patented invention" and thereby exhausted its right to restrict subsequent sales prices. *Univis*, 316 U.S. at 251.

The holding in *Univis* thus represents standard exhaustion doctrine: the unconditional sale of an article that embodies a patent exhausts certain rights arising from the patent that claims that article. *Univis* did not address a situation involving more than one patent, like this case, and does not stand for the position advanced by petitioners that the sale of a patented article exhausts not only patent rights in

the item sold, but also patent rights in separate innovations, such as the patented systems at issue, that incorporate the article sold.

3. This conclusion finds strong support in statutory provisions enacted subsequent to *Univis*. In 1952, Congress passed 35 U.S.C. § 271(d)(2), which states that "[n]o patent owner otherwise entitled to relief for infringement . . . shall be denied relief . . . by reason of his having . . . authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent." *Id.* This provision flatly declares that a patent holder's decision to license the sale of a component with no significant use except to infringe the patent holder's patent rights does *not* thereby eliminate the patent holder's right to sue the purchaser for infringement, if the purchaser uses the component in derogation of the patent holder's rights. In other words, a patent holder shall not be "denied relief" in this setting if he or she is "otherwise" entitled to it. *Id.*

Petitioners, however, ask this Court to deny LGE its right to relief arising from the infringement of LGE's systems patents solely because LGE licensed Intel to make and sell certain components that it argues would constitute contributory infringement of these patents if unlicensed. But the congressional policy set forth in § 271(d)(2) states that the licensing arrangement between LGE and Intel is not an improper extension of rights conferred by LGE's patents on systems and may not be used to deprive LGE of its right to relief for petitioners' direct infringement. Congress has made clear that, by allowing Intel to sell its components, LGE did not relinquish its right to enforce its systems patents against petitioners through an infringement action.

An example illustrates this point. If LGE had never licensed Intel to practice its patented systems but Intel nevertheless purported to sell to petitioners the right to practice those patents as part of the sale of the components, there would be no question that LGE could sue Intel for contributory infringement and petitioners for direct infringement. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 127 (1938); see *Grokster*, 545 U.S. at 930-33. And, if LGE subsequently settled its contributory infringement claim against Intel (by license or otherwise), there would still be no question that LGE could maintain its separate claims against petitioners for infringement. 35 U.S.C. § 271(d)(2). The situation here is no different, because a license agreement entered into *before suit* has the same effect as a settlement agreement entered into *during* suit: both constitute a patent holder's agreement not to sue another for a particular infringement of specific patent rights in return for consideration. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181 (1938) ("[A] non-exclusive license[] amount[s] to no more than 'a mere waiver of the right to sue.'"); *Gen. Elec.*, 272 U.S. at 489 ("[A] license[] giv[es] the licensee no title in the patent and no right to sue at law in his own name for an infringement.").

4. Petitioners' proposed rule of law would have a number of harmful market effects. It would force patent holders to demand that manufacturing licensees determine and pay the full value of the rights to all combinations and processes in which a component is to be used and to build that cost into the component's price, rather than negotiate a limited price for the patent rights in the component and allow separate negotiations between the patent holder and downstream purchasers of the component

who wish to practice the separately patented systems. It is these downstream purchasers – the companies that will actually use the component to manufacture the patented systems – that will have the best information about the real economic value of the patent rights. Indeed, they may be willing to pay different prices to practice the patents depending on the particular needs of their business. Nevertheless, petitioners' approach would demand that the full and final value of these patents be determined at a single point in the distribution chain, where the relevant information simply does not exist. That is not only economically unjustified, but is a prescription for an inefficient marketplace, where freeriding would abound.

For example, many electronic products include components and subcomponents made by independent entities in a vertical manufacturing chain. The first level in most cases is the microprocessor or other chip manufacturer, while intermediate levels may involve subassemblies that include microprocessors, and the final level will result in the making of the ultimate product, such as the computer or cellular phone. Currently, the owner of a patent on a computer or cellular phone will license a microprocessor manufacturer to supply that component in a license that does not exhaust the patent on the combination (either the subassembly or the computer or cellular phone). Thus, the microprocessor manufacturer does not infringe by practicing the patent, but any purchasers of the microprocessor who wish to make the subassemblies or the ultimate product must obtain licenses from the patent holder to practice the patents involved in the combinations. These arrangements, now so common

and beneficial in the marketplace, would be negated by petitioners' proposed rule of law.

These market failures would necessarily result in a stifling of innovation. Inventors could no longer be assured of a reasonable return on the substantial time and energy invested in developing a novel product or system. They would, in fact, have a positive disincentive to withhold any new idea from the marketplace, to ensure that they do not exhaust their rights in the idea before they ascertain all of the uses to which it might be put and the full value of those uses. The practice of licensing an invention to a company for further development and marketing – a practice that has led to innumerable useful innovations – would end: inventors would be unwilling to part with an invention with potentially profitable uses without a substantial up-front payment, and companies would be unwilling to make a substantial up-front payment without proof of profitability. Petitioners' proposed rule, far from advancing the goals of patent law, would impede its fundamental purpose: "to promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8.

No "contracting strategies" could provide an answer to these problems or serve as an effective substitute for the protection of patent law. Pet. Br. 52; see Br. of IBM 14-26 (arguing that restrictions may be enforced only through written agreements with purchasers). There is simply no way that a patent holder could, when licensing manufacturing and vending rights to another entity, identify all potential purchasers of the article or quantify the value of the uses to which the article will be put. And, of course, following sale, purchasers of the article would have no incentive to enter into separate licensing agreements with the patent holder, since (under

petitioners' theory) they would already be absolutely authorized to practice any patents in which the article will be used. Nor would contract law provide an equally effective remedy to the patent holder in the event of a breach: the patent holder would be entitled to monetary damages but, unlike under patent law, would not have a strong entitlement to injunctive relief. The infringing items thus would continue to be sold to consumers and used in derogation of the patent holder's rights.

The rule proposed by LGE would not render exhaustion "optional" or burden consumers or the marketplace. Br. of Dell, et al. 12-22; see Br. of Comp. & Comm. Ind. Ass'n 4-14. The sale of an article would continue under LGE's approach – which also has been this Court's and the Federal Circuit's approach – to exhaust the patent holder's right to control resale of that article. Patent holders still would not be allowed to impose common law restraints on alienability, and downstream purchasers still would enjoy full authority to use and sell the articles that they purchase. Likewise, the reasonable expectations of parties to a transaction would continue to be protected. The purchaser of an article to be used in a patented system would still be "authorized" to practice that system, assuming the circumstances of the transaction indicate that the parties understood that a license would be implied. LGE proposes nothing more than that this Court follow its traditional approach to patent law, including the distinction between exhaustion and implied license, which has enabled the market to function effectively and innovation to flourish for the last 200 years.

To be sure, under LGE's approach petitioners would not receive the windfall of paying for an

inexpensive item and then selling vastly more expensive products practicing patents that are completely different. But it would be passing strange for this Court to disrupt the entire market for patent licensing solely to reward freeloading manufacturers. Only a clear statement of congressional intent could justify such a bizarre result, and § 271(d)(2), if anything, declares the opposite.

B. A Patent Holder May Restrict Its Licensee's Authority To License Customers To Practice Its Patents.

1. The sale of components to petitioners did not exhaust LGE's patent rights in the separate systems patents. At most, that sale might have given rise to an implied license for petitioners to practice those separate patents. See *Univis*, 316 U.S. at 249-50. But the circumstances of this case, as the lower courts found (and petitioners do not dispute), cannot support a finding of an implied license. Moreover, even if a license could be implied in these circumstances (notwithstanding the contrary, unchallenged findings of the lower courts on this issue), that license was restricted to allowing petitioners to practice the patents with only Intel parts.

Precedents of this Court uniformly confirm that restrictions on a manufacturing licensee are wholly enforceable if they reasonably relate to the rights secured under patent law. This Court noted in *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938), that "[t]he practice of granting licenses for a restricted use is an old one, [and,] . . . [s]o far as it appears, its legality has never been questioned." *Id.* at 127; see *Gen. Elec.*, 272 U.S. at 489-90; *Bement* v. *Nat'l Harrow Co.*, 186 U.S. 70, 93-94 (1902); *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.)

544, 548 (1872); *Rubber Co.* v. *Goodyear*, 76 U.S. (9 Wall.) 788, 799 (1869). These restrictions, unlike those in cases such as *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1916), and *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), *overruled in part by* 243 U.S. 502 (1916), are imposed *prior* to sale of the manufactured article and therefore do not implicate the exhaustion principles on which petitioners rely. Pet. Br. 21-23. Petitioners themselves concede, as they must, that "licenses granted to manufacturing licensees can carry enforceable conditions." *Id.* at 28.

Given this concession, and even assuming (contrary to the record below) that an implied license was granted to petitioners through the sale of the components from Intel, petitioners (as manufacturing licensees) were prohibited from practicing the systems patents with non-Intel parts. The agreements between LGE and Intel prohibited Intel from licensing its customers to practice the patented systems with non-Intel parts, and petitioners received express notice that Intel could not convey such a license to them. The cases cited above demonstrate that this restriction was lawful; indeed, petitioners do not challenge its validity. Thus, any license that petitioners *could* have received would have been limited to allowing them to practice the patents with exclusively Intel-manufactured parts.

Petitioners offer no rejoinder to these points other than to claim that they are not "licensees" of LGE or Intel but are, instead, purchasers in due course of the patented systems. Pet. Br. 28. But this assertion merely begs the question of what did they buy. The articles that Intel sold to petitioners are the microprocessors and chipsets. Those components did not "embody" LGE's independently patented systems,

and the sale of those components cannot be equated with a sale of such systems, particularly in light of the existence of independent patents on the systems. See, *e.g.*, *Mercoid*, 320 U.S. at 667-68. Petitioners purchased *not* the patented systems, but only the components that would be used in those technologies.

In light of this, the only way that petitioners could have obtained rights under LGE's systems patents was through an implied license. But, as discussed, petitioners could not have received a license to practice the patented systems with non-Intel parts, because Intel could not give such a license and petitioners knew that they could not receive such a license from Intel. Petitioners' practice of those patents with non-Intel parts therefore infringes LGE's patent rights.

2. This outcome makes legal and economic sense. The Patent Act grants exclusive rights to practice the patent, allowing the patent holder to bar others from doing so "without authority." 35 U.S.C. §§ 154(a)(1), 261, 271(a). The Act does not restrict the patent holder's freedom to convey those exclusivity rights to different entities, with partial payments negotiated with each entity. *Gen. Elec.*, 272 U.S. at 489.

The prices negotiated at each level of a transaction will, of course, be affected by the rights that are sold or purchased. So, for example, if Intel had been authorized to license its customers to combine Intel components with those from other companies to make the patented systems, the sale price of the components with that license would have been higher, reflecting that fact. As it was, Intel's customers knew that they were not purchasing a license to practice LGE's patented systems with non-Intel parts and could not practice those patents without obtaining a separate license from LGE. That

made the components less valuable than they otherwise would have been, a fact no doubt reflected in their price.[13]

The Government itself has recognized the efficiency benefits of licensing restrictions. U.S. Dep't of Justice & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* 5 (1995) ("Field of use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently . . . as possible."); cf. Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 957 (2005) ("Markets are *much* better than judges at sifting efficient from anticompetitive practices."). The ability of patent holders to convey limited licenses of patent rights, based on individual negotiations over the value of those rights, reduces transactional costs

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[13] Petitioners have implied that LGE obtained the full value of its patented systems in its transactions with Intel, *see* Pet. Br. 8-9, 49-50, 52-53, suggesting that LGE would be "double-dipping" if Intel's customers were required to pay to obtain a license as well. There are at least two problems with this assertion. First, the record does not support any claim that LGE received full value for the patented systems. To the contrary, the record shows that LGE and Intel intended to preserve LGE's ability to require separate licenses from Intel's customers under the systems patents. *See supra* note 6 (no license is granted to Intel's customers). Second, as discussed, there is simply no way by which a patent holder, when licensing a manufacturer to produce and sell patented components, could reasonably determine the value of a separate patented system to different downstream purchasers or rationally allocate the value of that system as part of the price of the component license. There is thus no ground (absent a concession by the seller) to deem the amount exchanged for the component license to represent the full value of the separate patented system or amounts subsequently exchanged for licensing rights under those separate patents a "double" recovery.

and increases transparency, by permitting parties to tailor their licenses explicitly to their needs and limit the risk of litigation regarding the scope of the license. Patent holders such as LGE should be allowed, through their licensing agreements, to manage the ways in which their licensees practice under and profit from their patents.

II. PATENT HOLDERS MAY IMPOSE REASONABLE CONDITIONS ON THE SALE OF ARTICLES.

1. As discussed, the sale of the patented components to petitioners cannot exhaust LGE's rights under the separate patents for the systems. *Supra* at 19-24. Nor did the sale of the components give rise to an implied license to practice the patented systems – much less a license to practice those patents with non-Intel parts. *Supra* at 35-37. The judgment below should be affirmed on these grounds.

But, even assuming (incorrectly) that the sale of these components somehow constituted a sale of the patented systems of which the components ultimately became a part, petitioners are still barred from practicing the systems patents with non-Intel components. That sale was accompanied by express notice that petitioners would not be allowed to practice the systems patents with non-Intel components. This independent restriction on the sale of the patented systems is valid and enforceable under patent law, for two reasons.

First, petitioners could not have obtained from Intel the right to practice the patented systems with non-Intel components because Intel never owned that property interest. "[N]o one can convey . . . any better title than he owns." *Mitchell*, 83 U.S. at 550. This Court held in both *Mitchell* and *Talking Pictures* that

the purchaser of an article from a manufacturing licensee takes the article subject to any restrictions that were imposed on the licensee by the patent holder, whether or not the purchaser has notice of those restrictions. *Talking Pictures*, 305 U.S. at 127; *Mitchell*, 83 U.S. at 548. The licensing agreements between Intel and LGE expressly prohibits computer system manufacturers from practicing the patented systems with non-Intel parts. *Supra* note 6 (quoting agreements). The patent rights that petitioners obtained through Intel therefore could not have included this right. See *Mitchell*, 83 U.S. at 548. Indeed, this case provides an even stronger basis for application of this rule, since petitioners admittedly had notice that the sale was subject to this restriction.

Petitioners mischaracterize the holding in *Mitchell* as based on the Court's finding that the manufacturing licensee "had no authority to sell" the article. Pet. Br. 18; see Gov. Br. 17 n.7. To the contrary, the licensee in *Mitchell* was granted express authority under the license agreement to manufacture and convey the article for use by others, and it did so in full compliance with that agreement. 83 U.S. at 548-49. The Court enforced the restriction (precluding the buyer from using the patented hat felting machine after expiration of the original term of the patent) not because the conveyance was "unauthorized" – it clearly was authorized – but because the manufacturing licensee lacked any property interest in using the article in the restricted manner (*i.e.*, after expiration of the original patent term) and the buyer was therefore subject to the same restriction on use. *Id.* at 549-50.

Petitioners' reliance on *Univis* to refute this conclusion is also, once again, unavailing. The

licensing agreement under which the affiliate in *Univis* sold the lens blanks did not restrict the affiliate's right to use or sell the blanks. 316 U.S. at 243-45. The Court emphasized that the patent holder and the affiliate could be treated "as though they were a single corporation," meaning that the affiliate had full rights to use and sell the blanks and thus could (and did) convey those full rights to the retailers that purchased the articles. See *id.* at 243, 249-51. *Univis* did *not* state that a holder of a product patent cannot restrict use of the product through agreements with manufacturing licensees. Instead, it merely applied standard exhaustion concepts, recognizing that sale of an article *by the patent holder* generally exhausts certain rights under that article's patent.

In no case has this Court refused to enforce a reasonable restriction on a patented article when that restriction passed through the chain of ownership from the manufacturing licensee to the purchaser, as happened here. See *Talking Pictures*, 305 U.S. at 127 (approving of such restrictions); *Mitchell*, 83 U.S. at 548 (same). The opinions cited by petitioners as stating a contrary rule are inapposite, as they involve sales of articles either by the patent holder, *Motion Picture*, 243 U.S. at 515-16; see *Univis*, 316 U.S. at 249-51; *Henry*, 224 U.S. at 23-35, or by a manufacturing licensee that possessed full rights to sell the manufactured articles without any restriction as to post-sale use, *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (licensee subject to restriction on where it could sell a patented article was under no restriction as to conveyance of right to use the article); *Hobbie* v. *Jennison*, 149 U.S. 355, 362-63 (1893) (same); *Adams*, 84 U.S. at 456 (same). In all of those cases, unlike *Mitchell* and *Talking*

Pictures, the purchaser was able to secure from the seller full rights in the article, free of any restriction that the patent holder might wish to assert. 3 W. Robinson, *Treatise on the Law of Patents* § 824, at 617-24 (1890) (under *Mitchell* and other cases, patent holder can forestall loss of patent rights in a licensee's sale of product by notifying purchaser of restrictions on rights conveyed); Thomas Reed Powell, *The Nature of a Patent Right*, 17 Colum. L. Rev. 663, 670-71 (1917) (same).

In contrast, Intel did not possess full patent rights in the patented systems. The licensing agreements with Intel expressly prohibited computer system manufacturers from practicing those patents with non-Intel parts. This restriction was reasonable and enforceable, as petitioners apparently concede. See Pet. Br. 28. And, through their purchase from Intel, petitioners took the systems subject to that restriction. *Talking Pictures*, 305 U.S. at 127; *Mitchell*, 83 U.S. at 548. Petitioners are, for that reason, prohibited from practicing those patents with non-Intel parts.

Second, notwithstanding this inherent limitation on Intel's patent rights, the restriction imposed on petitioners by LGE is independently valid under standard principles of patent law. Holders of a patent, like holders of any property, can sell distinct sticks from their bundle of property interests without losing the remainder. *E.g.*, *Gen. Elec.*, 272 U.S. at 489-90. In other words, they may impose reasonable conditions on sale of a patented article, so long as those conditions reasonably relate to the patent rights retained by the patent holder following the sale. *Bement*, 186 U.S. at 91 ("[T]he rule is, with very few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of

property [the patent right], imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts."). In particular, even assuming that the sale of an article divests the patent holder of the right to claim continued dominion over the "selling" or "use" of that article, *Motion Picture*, 243 U.S. at 515-16, the sale cannot be said to exhaust the patent holder's separate patent right to control the "making" of the article, *Cotton-Tie*, 106 U.S. at 93-94. See 35 U.S.C. § 154 (patent holder may exclude others from "making, using . . . or selling" the invention).

All of the restrictions that this Court has previously refused to enforce under the exhaustion doctrine, in the line of cases running from *Adams* through *Aro*, involved conditions that related to the selling or use of the patented article. They dealt with price controls, *United States* v. *Masonite Corp.*, 316 U.S. 265, 277-82 (1942); *Univis*, 316 U.S. at 251-52; *Boston Store*, 246 U.S. at 25-26, geographic or temporal sales limitations, *Keeler*, 157 U.S. at 666; *Hobbie*, 149 U.S. at 362-63; *Adams*, 84 U.S. at 456, and tying arrangements with unpatented products, *Aro*, 377 U.S. at 497; *Motion Picture*, 243 U.S. at 513-14; cf. *Henry*, 224 U.S. at 23-35 (patent owner could impose tying restrictions on purchasers of the patented machine).[14] These restrictions sought to extend the

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[14] Although petitioners assume that LGE's argument somehow rests on *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), devoting several pages of their brief to that decision, Pet. Br. 21-23; *see* Gov. Br. 13, in fact *Henry* is irrelevant to LGE's position. The restriction that the Court approved in *Henry*, and later rejected in *Motion Picture*, was a tying arrangement between patented and unpatented articles. 224 U.S. at 23-24. This condition, like those rejected in *Univis* and other cases, represented a restriction on "use" of the article, not one on "making" the article.

patent monopoly beyond the scope of the patent itself, by dictating conditions on the sale or use of the patented article after the patent holder had already exhausted its exclusive rights to "sell" and "use" the article. See *Masonite*, 316 U.S. at 277-82; *Boston Store*, 246 U.S. at 25-26. It was for that reason – and not for some inalienable rule that the sale of an article exhausts *all* patent rights in that article as a matter of law – that the Court held those restrictions could not be enforced under patent law.

The distinction that petitioners and the United States draw between a "condition" and a "restriction," in an effort to explain away decisions of this Court suggesting that only an "unconditional" sale of an article will result in exhaustion, Pet. Br. 18-20 (citing *Mitchell*); Gov. Br. 20-21 (same), is nothing more than a semantic red herring. Whatever myriad definitions may apply to the term "condition," the Court has clearly understood it in patent cases to be synonymous with "restriction." For example, in *Mitchell*, the Court contrasted a situation involving "restrictions" on post-sale use of an article with one in which the sale was "without conditions." 83 U.S. at 548; see *Aro*, 377 U.S. at 497 ("[T]he patentee cannot [after authorizing sale and use of a patented article] *restrict* that use by imposing a *condition* [on purchasers].") (emphasis supplied); *Gen. Elec.*, 272 U.S. at 490 (equating "conditions of sale" with a "restrict[ion]" on the article). Moreover, these arguments incorrectly assume that LGE is levying a direct challenge to the exhaustion doctrine, claiming that exhaustion may *always* be defeated through conditions on sale. In fact, LGE is not challenging the doctrine itself but simply defining its proper scope. While the sale of an article may exhaust the patent holder's rights to enforce restrictions on

"selling" or "using" the article, the doctrine cannot reasonably be extended (as petitioners would) to exhaust the patent holder's rights to preclude others from "making" the article.[15] Accord Br. of Croplife Int'l 17 ("The patent exhaustion doctrine does not address prohibitions against making a product."); Br. of Biotech. Ind. 12 (same).

The restriction in this case falls squarely within the ambit of enforceable restrictions. LGE does not seek to exercise its patent rights to preclude purchasers of its patented systems from "selling" or "using" those systems, even assuming (incorrectly) that the sale of the components somehow represented the sale of the systems. Rather, LGE seeks to limit the manner in which those purchasers can "make" the systems.[16] It

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[15] That petitioners and the United States misconceive the nature of this case is further demonstrated by their focus on the Federal Circuit's prior decision in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). Pet. Br. 30-31; Gov. Br. 18-24; *see* Br. of CU et al. 4-6. In *Mallinckrodt*, unlike this case, the issue involved not the validity of a restriction on "making" the article but, instead, the enforceability of a restriction on "use" of the article. 976 F.2d at 703-04, 708-09. But there is no reason to decide that issue in this case. Even if this Court firmly believes that the Federal Circuit erred in its specific holding in *Mallinckrodt*, the issue presented there is not the one presented here.

[16] The restriction that LGE seeks to enforce is not on "use" of the patented *components*, but on the "making" of the patented *systems*. If LGE was not the owner of the systems patents, it could not claim that petitioners' "use" of the patented components in those systems infringed its patent rights, as the authorized sale of the components exhausted LGE's right to control their post-sale disposition. *See supra* note 6 (acknowledging exhaustion doctrine). It is thus no answer for petitioners to say that they derived no right of "use" from their purchase of the components, in light of their knowledge that separate patents applied to the systems and imposed

can hardly be said that LGE exhausted its exclusive right to make the patented systems – since it neither manufactured the systems nor authorized others to do so with non-Intel parts – or that this restriction is somehow improper or otherwise not within the protection of patent law. Indeed, petitioners have not so argued. That restriction may therefore be enforced through a suit for patent infringement.

2. Lacking any affirmative statutory support for their position, petitioners retreat into suppositions of congressional purpose to challenge the validity of restrictions on intellectual property rights. But, even assuming that legislative intent could serve as an effective guide, see *Conn. Nat'l Bank* v. *Germain*, 503 U.S. 249, 253-54 (1992) (refusing to use legislative history in statutory interpretation), petitioners point to no evidence that Congress intended that the doctrine would be expanded in the manner they propose. Congress has never enacted a provision generally mandating exhaustion in the patent context.

This inaction is hardly evidence that Congress approved of the judicial exhaustion doctrine – much less the sweeping doctrine advanced by petitioners, which no court has ever embraced. See *Alexander* v. *Sandoval*, 532 U.S. 275, 292 (2001) ("It is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation.") (internal quotations omitted). Indeed, the fact that Congress has chosen *not* to enact an general exhaustion provision in the Patent Act, despite passing such a provision in the Copyright

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independent restrictions on their ability to practice those patents.

Act, 17 U.S.C. § 109(a), (c) (stating that certain aspects of the copyright are exhausted by the sale of the copyrighted product), suggests that Congress understands how to codify judicial exhaustion doctrines that it approves. This history, if anything, militates in favor of a limited interpretation of the doctrine.

Patent law is inherently a creature of statute. "The [patent] monopoly did not exist at common law, and the rights, therefore, which may be exercised under it cannot be regulated by the rules of the common law." *Gayler* v. *Wilder*, 51 U.S. (10 How.) 477, 494 (1850). The Patent Act grants the patent owner the right "to exclude others from making, using . . . or selling the invention throughout the United States." 35 U.S.C. § 154(a)(1). No limit is placed on this right, and none can be implied. For this reason, the common law presumption against restraints on alienation of property, on which petitioners rely, Pet. Br. 46-48, provides no basis for denying a patent holder's right to impose reasonable conditions on the sale of a patented article.

A recent decision of this Court in an analogous context reveals the peril of adopting a per se rule, of the "first sale/any sale" type offered by petitioners, based on antiquated notions of property. In *Leegin Creative Leather Products, Inc.* v. *PSKS, Inc.*, 127 S. Ct. 2705 (2007), this Court reversed *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), which had established a per se rule against a manufacturer's agreement with a distributor to set minimum resale prices. 127 S. Ct. at 2713-14. The Court observed that "the rule arose from restrictions removing real property from the stream of commerce for generations," and said that it "should be cautious about putting dispositive weight on doctrines from

antiquity but of slight relevance." *Id.* After highlighting the potential economic benefits and risks of post-sale restrictions, the Court concluded that such restrictions "appear ill suited for per se condemnation." *Id.* at 2718.

Similarly, the common law rule against restraints on alienation should have little relevance, and certainly no dispositive weight, in setting the contours of the judicially established doctrine of patent exhaustion. Patent holders, like owners of any property interest, may place restrictions on the right to use their intellectual property. *Gen. Elec.*, 272 U.S. at 489-90. These restrictions may favor competition in some settings, while stifling it in others. But, as this Court recognized in *Leegin*, the mere possibility of anticompetitive effects cannot justify a per se rule that defines patent rights as more limited than other kinds of property. 127 S. Ct. at 2718 (such a "rule would proscribe a significant amount of procompetitive conduct"); see also *Masonite*, 316 U.S. at 280. Here, of course, there is no allegation that LGE's licensing restriction is anticompetitive or otherwise unlawful.

Nor is there any reason to believe that the rule proposed by LGE "threatens to immunize patent owners for conduct that violates antitrust law." Pet. Br. 50; see Br. of Am. Antitrust Inst. 10-13. LGE does not argue that patent holders may impose any and all conditions on patented articles. Tying arrangements and price controls, as well as other anticompetitive restrictions on the "use" and "sale" of patented articles, would continue to be outside the patent protection and fully subject to antitrust scrutiny. The condition that LGE seeks to enforce is not one that controls sale or use of the patented article – restrictions that lie at the core of antitrust

concerns – but, rather, addresses the "making" of the patented product – a right that lies at the heart of the patent guarantee. See *Cotton-Tie*, 106 U.S. at 93-94. Such a condition poses none of the anticompetitive risks cited by petitioners and in no way constitutes an expansion of the patent protection (or a constriction of antitrust law).

3. In a final bid to sustain their proposed rule, petitioners mischaracterize a condition on a patented article as an "equitable servitude" or some form of contractual limitation on property otherwise conveyed. Pet. Br 46-48. These comparisons are wholly inapposite. Servitudes on personal property are disfavored because a person's common law property rights in an article are tied entirely to that article, meaning that once ownership and possession of the article have been relinquished to a buyer in due course the original owner can no longer assert any property rights in that article and cannot restrict the purchaser's enjoyment thereof. *RCA Mfg. Co.* v. *Whiteman*, 114 F.2d 86, 88-89 (2d Cir. 1940) (L. Hand, J.).[17] Statutory patent rights, in contrast, are tied not to any single article but to the *invention*; they exist independent of the individual article manufactured under the patent. *Bement*, 186 U.S. at 88-91; *Grant*, 31 U.S. at 242; *Pennock* v. *Dialogue*, 27 U.S. (2 Pet.) 1, 17 (1829). The sale of a patented article results in a loss of common law property rights in the article, but does not of itself convey any of the owner's independent rights under the patent (although a limited conveyance of patent rights with

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[17] *See generally* Zechariah Chafee, Jr., Comment, *Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250 (1956), *cited in* Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 Yale L.J. 1, 18 n.68 (2000).

respect to the article is generally presumed under the exhaustion doctrine). See *Aro*, 377 U.S. at 497; *Cotton-Tie*, 106 U.S. at 93-94. Restrictions on a patented article therefore do not constitute an "equitable servitude" (or other common law restraint on alienability). They flow not from a contract but, rather, reflect patent rights that the patent holder has chosen not to convey and which exist independent of the article itself.[18]

LGE clearly did not convey all of its patent rights to petitioners. Petitioners purchased the Intel components with express notice that they would be unable to practice the patented systems with non-Intel parts. The only logical inference in this situation is "that the parties negotiated a price that reflects only the value of the . . . rights conferred by the patentee." *B. Braun Med., Inc.* v. *Abbott Labs*, 124 F.3d 1419, 1426 (Fed. Cir. 1997). Nevertheless, petitioners disregarded this restriction, practicing the patented systems in violation of LGE's patent rights and profiting from those violations without compensation to LGE. Petitioners have no grounds, under patent law or otherwise, to defend their misconduct. The restriction was valid, and LGE is entitled to enforce that restriction through a suit for patent infringement.

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[18] The analogy that petitioners draw, between restrictions on use of a patented article and "divvy[ing] up" the bundle of personal property rights in that article, is particularly inapt. Pet. Br. 47. The right to prohibit otherwise infringing uses of a patented article derives from the privileges granted under the Patent Act, not from the common law incidents of personal property ownership. *See, e.g., Motion Picture*, 243 U.S. at 510-14. Preservation of this right therefore does not reflect retention of partial ownership of the article or of a particular "stick" in the bundle of common law property rights associated with the article.

III. THE EXHAUSTION DOCTRINE DOES NOT APPLY TO METHOD PATENT CLAIMS.

Notwithstanding the foregoing, there is an independent reason why sale of the components to petitioners could not have exhausted all of LGE's rights under the patents in suit. The claims of those patents covered both systems (combinations of components) and methods (processes of using those combinations). And, as both lower courts in this case correctly held, patent rights in method or process claims cannot be exhausted.

Rights in an article patent can be exhausted because those rights are linked with a tangible article. *Motion Picture*, 243 U.S. at 515-16; *Keeler*, 157 U.S. at 666; *Mitchell*, 83 U.S. at 548. After the article is manufactured, there is no further economic benefit in practicing the patent with respect to that article, since the article already embodies the essential aspects of the invention. *Motion Picture*, 243 U.S. at 515-16. The unconditional sale of the manufactured article thus exhausts all remaining value in the patent with respect to that article and eliminates the patent holder's rights to restrict use or sale of the article. *Id.*

The same cannot be said of a process patent. Rights in a process patent are not linked to a tangible article but, rather, represent the means by which a particular task is accomplished or item is produced. *See, e.g.*, *Gottschalk* v. *Benson*, 409 U.S. 63, 68 (1972) (citing *O'Reily* v. *Morse*, 56 U.S. (15 How.) 62, 111-13 (1853)). The sole economic value in the process patent lies in the "use" of the process. A process patent can thus never be "exhausted" through a sale; rather, the patent holder's rights will be transferred to the extent stated in the assignment contract (or license). See *Glass Equip. Dev., Inc.* v. *Besten, Inc.*,

174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999); *Bandag, Inc.* v. *Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984).

The cases petitioners cite in support of a contrary proposition are inapposite. Pet. Br. 35-37. These cases held, in accord with the discussion *supra* at 19-24, that the unconditional sale of an article exhausts the patent holder's rights in *that article* and that restrictions on use of *that article* are unenforceable. *Univis*, 316 U.S. at 249-51; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 446, 457 (1940). None of them found, either expressly or by implication, that the patent holder's rights in *separate* patented methods were exhausted. See *Univis*, 316 U.S. at 249-51; *Ethyl Gasoline*, 309 U.S. at 446, 457. And, whatever concession the parties may have made on this point in *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176 (1980), it is clear that the Court did not *hold* that a patented process could be exhausted by sale of an article used in that process. *Id.* at 186.

The courts below both held that method claims are not subject to exhaustion. Those holdings should be affirmed, and LGE's infringement claims should be allowed to proceed.

CONCLUSION

For the foregoing reasons, the decision below should be affirmed.[19]

Respectfully submitted,

CARTER G. PHILLIPS*
VIRGINIA A. SEITZ
JEFFREY T. GREEN
JEFFREY P. KUSHAN
RACHEL H. TOWNSEND
QUIN M. SORENSON
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Respondent

December 3, 2007 * Counsel of Record

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[19] As the United States acknowledges, Gov. Br. 30-31, if the Court adopts petitioners' view and holds that the sale of a component *could* exhaust patent rights in an interpedently patented system, remand would be required to determine whether the microprocessors sold to petitioners did in fact have no non-infringing use. *But see supra* note 10 (identifying non-infringing uses). A related issue, which also remains open, is whether the sales of the components took place exclusively outside the United States. *See Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (foreign sales of patented article do not exhaust patent rights in that article) (citing *Boesch* v. *Graff*, 133 U.S. 697, 701-03 (1890)).

APPENDIX

APPENDIX

FEDERAL STATUTES

17 U.S.C. § 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A(d)(2)(B),

whichever occurs first.

* * * *

(c) Notwithstanding the provisions of section 106(5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or

by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

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35 U.S.C. § 101. Inventions patentable

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 154. Contents and term of patent; provisional rights

(a) In general.—

(1) Contents.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

* * * *

35 U.S.C. § 271. Infringement of patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the

acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

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35 U.S.C. § 282. Presumption of validity; defenses

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. Notwithstanding the preceding sentence, if a claim to a composition of matter is held invalid and that claim was the basis of a determination of nonobviousness under section 103(b)(1), the process shall no longer be considered nonobvious solely on the basis of section 103(b)(1). The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number,

date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Federal Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires. Invalidity of the extension of a patent term or any portion thereof under section 154(b) or 156 of this title because of the material failure—

(1) by the applicant for the extension, or

(2) by the Director,

to comply with the requirements of such section shall be a defense in any action involving the infringement of a patent during the period of the extension of its term and shall be pleaded. A due diligence determination under section 156(d)(2) is not subject to review in such an action.